

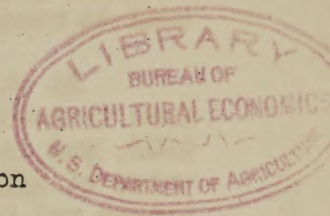
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REDUCING THE SPREAD BETWEEN PRODUCER AND CONSUMER*

By
R. B. Corbett, Director
University of Maryland Agricultural Experiment Station



Marketing has become the chief agricultural problem in the opinion of many farm leaders. The phase of marketing that is most widely discussed is the cost of distribution or the spread between the producer and the consumer. Some persons feel that the real incentive back of the marketing drive is the need for higher farm prices. That is, if prices could be raised so that farmers received a reasonable income, there would be much less interest in marketing. However, there is the general feeling that marketing is the weak point in the whole situation, and that improvement in marketing will greatly benefit farmers everywhere. Let us examine the general facts having to do with marketing, as a background for our discussion.

The chart (page 3) shows the trends in the cost of distribution, the retail price of food, and the farm price of food. The trends in these three items are compared with the base period 1910-14 when each averaged 100. By this method each was on the same level in the last 5 years prior to World War I. During the period of rising prices that accompanied the War, the farm food price increased most rapidly and reached the highest peak. This was a brief period of very real prosperity for the farmers of America. However, in the fall of prices in 1921 and again from 1929 to 1933, the farm price of food fell most rapidly and most drastically. The retail price of food was intermediate in its rise and fall, while the costs of distribution rose the least rapidly, have fallen the least, and have remained relatively high ever since the War. One of the reasons for the gap between the retail price of food and the farm price of food is this higher cost of distribution. In general, farmers tend to get the retail price of food less the cost of getting the food from the farm to the consumer. The high costs of distribution, therefore, have been a factor in the agricultural depression which has existed since 1920.

Many of the costs between the producer and consumer are relatively rigid. On the other hand, farm prices are very flexible and react quickly and drastically with changes in the economic situation. The cost of distribution is made up largely of labor which is an inflexible item because of the union wage rates that are maintained through the power of unions.

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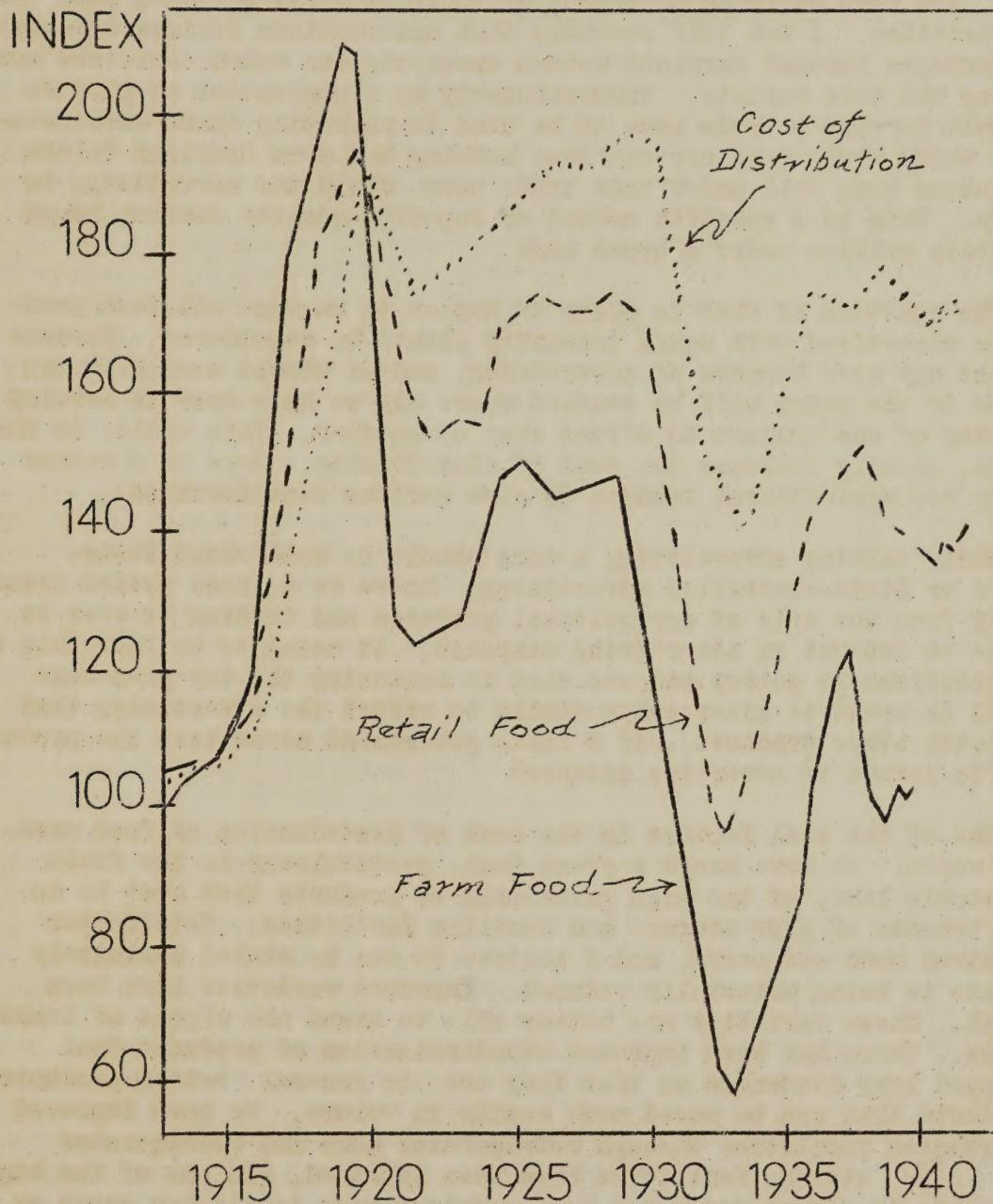
Rents are not as flexible as farm prices, and railroad rates which are set by governmental action tend to be very rigid. Wages, rents, and railroad rates are increased more slowly than the prices of products which respond to the free play of the economic situation, but once they are increased they tend to remain high.

At the low points in these trends, the spread between these three factors is much greater than it is at the high points. Notice the situation in 1922, and in 1933 as compared with 1929 and 1937. Thus, an increase in the price of agricultural products would tend to reduce the spread between farm prices and retail prices. While this would not reduce the actual spread, it would reduce the spread between producer and consumer relative to the prices for food, and would relieve the farmer of much of the pressure under which he now works. Because the items which make up the cost of distribution are inflexible, this cost would remain relatively stationary while farm prices rose to the new levels. As further proof of this generalization the following is a quotation from a News Release of the U. S. Department of Agriculture on January 30, 1941: "Retail prices of the 58 foods averaged 5 cents on the dollar higher in December 1940 than in the month preceding the outbreak of the European War. In contrast, the farm value of these foods averaged 20 cents on the dollar higher than in August 1939. The spread between farm and retail prices declined 4 cents on the dollar during this period. The differences account for the rise of 6 cents in the farmer's share of the food dollar from August 1939 to December 1940.

In general, the farmer gets about 40 cents of the consumer's dollar; and the disturbing thing about this is that over a considerable period, the spread between producer and consumer has tended to become larger rather than smaller. Production -- the fundamental -- is being less well paid, while distribution -- the incidental -- is being better paid. Often the big salaries are found in distribution rather than in production. One of the best-paid fields today is advertising, and the purpose of advertising is to get persons to buy products that someone else has produced. It is undoubtedly true that the whole country needs to pay more attention to the costs of distribution and see that they do not become constantly higher.

I wish that I could offer some formula which would solve this marketing problem. One hears two generalizations for the improvement of marketing conditions. The raising of the prices of farm products which I have already mentioned is one, and the other is to revolutionize the whole marketing system. I think there is something of value in the raising of prices of farm products. But when persons talk about revolutionizing the whole marketing system and they are pinned down to details, they have little specific to offer. Usually it is so indefinite and indefinable, that consideration of the program does not seem valuable. Thus I have no "cure-all" to offer. On the contrary I believe that improvements in marketing are most apt to be made through taking small parts of the field and concentrating on improving them rather than trying some revolutionary program. I shall proceed to make some suggestions along these lines.

UNITED STATES FARM AND RETAIL PRICE OF FOOD AND COST OF DISTRIBUTION 1910-14 = 100



There is a great deal of talk about advertising. A program often suggested is advertising to bring the farmer's marketing more in line with that practiced by businessmen. This idea needs to be examined with considerable care. It is true that advertising is taking a larger and larger part of the consumer's dollar. It is also true that advertising often brings the efficiency that accompanies volume of business. I believe too, that if a specific job is to be done, advertising may pay large dividends. For example, the Maryland Golden sweetpotato which was developed by the Agricultural Experiment Station of the University of Maryland, has been bringing a premium of 10 to 15 cents a bushel over competing varieties. I was told recently that unscrupulous dealers were marketing packages labeled Maryland Golden sweetpotatoes which contained most everything but this variety. Unquestionably an organization of growers which would develop a trade name to be used in marketing these sweetpotatoes and which would make certain that nothing but good Maryland Golden sweetpotatoes were sold under this trade name, could use advertising to advantage. This is a specific method of superior-quality control by an organization selling under a brand name.

The question of what is going to happen to us when all food products are advertised with equal intensity should be considered. Persons cannot eat any more because of advertising, and we should seriously ask ourselves if the point will be reached where all we have done is develop advertising of one product to offset that of another. This would, in the aggregate, greatly increase the cost of distribution. Here is a matter of policy for agricultural leaders to give serious consideration.

While talking advertising, a word should be said about State-sponsored or State-controlled advertising. There is a trend toward deducting money from the sale of agricultural products and turning it over to the State to conduct an advertising campaign. It seems to me that this is a very questionable policy and one that is hastening the day when huge sums will be spent in advertising simply to offset the advertising that is done with other products. If a State government advertises one product, how can it refuse to advertise another?

One of the real factors in the cost of distribution of food products is waste. We have heard a great deal, particularly in the fruit and vegetable line, of the high percentage of products that must be destroyed because of poor storage and handling facilities. This factor has received much attention, and I believe it can be stated definitely that waste is being materially reduced. Improved varieties have been developed. These varieties are better able to stand the rigors of transportation. There has been improved standardization of products that are shipped long distances so that they are, in general, better products, and products that can be moved more easily in volume. We have improved transportation facilities through refrigerator cars and refrigerator trucks. Also, storage facilities have been improved, and one of the big improvements in recent years has been refrigeration in display cases or counters in retail stores. Much of the former waste occurred in retail stores because of slow handling and lack of refrigeration. Thus it seems

that we are making satisfactory progress in the control of waste.

Grading is often mentioned as a "cure-all" for marketing problems. Along with the idea of grading, there usually goes the thought that a considerable portion of the crop should be kept off the market -- small sizes and misshapen or scarred products should be thrown out and never brought to market. This idea needs a little analysis. Let me give you a story that illustrates the problem. The manager of one of the largest fruit and vegetable farms in the East told me this story. He said he went to one of his fruit packing houses one afternoon when peaches were being packed, and found the packing-house manager selling the lowest grade of soft peaches to truckers for 10 cents a bushel. A superior grade (fruit which was more firm but misshapen or had imperfections) was being offered for sale at 25 cents a bushel but was not moving. He ordered his packing-house manager not to sell another bushel of the 10-cent grade until he had cleaned up the 25-cent lot. The next day at about the same time he returned to this packing house and found that no one had purchased the 25-cent peaches. Sitting on the fence in back of the packing house were 9 or 10 of the truckers who had been buying the 10-cent peaches. He went to the packing-house manager and asked what the difficulty was, and he was given the reply that the truckers would not buy the 25-cent product. So he went to the truckers and asked them what was wrong. He told them that the peaches he wanted moved were a much better product and easily worth 25 cents. They finally got it across to him that they had been paying 10 cents for soft peaches and selling them for 25 cents to the poorest class of consumer in the nearby cities. These consumers would pay 25 cents, but no more, for peaches. When they as truckers, had to pay 25 cents and had to get 15 cents a bushel to make a day's pay, their customers were eliminated because they could not pay 40 cents for a bushel of peaches. Naturally from that time on he let them buy the product that they could sell. I know of no more vivid illustration of the fact that there are great numbers of consumers who cannot pay more than a bare minimum for food products and that when we throw away all the misshapen and injured products we do not necessarily raise the price for the whole crop. We may lower it by eliminating certain buyers who could afford to pay enough for the inferior grades so that some additional income was received by the grower. This angle of the grading problem and elimination of low-grade products needs careful analysis and study.

It seems to be true that areas close to market must analyze their problems from a point of view different from those that are distant from market and must ship in carlots. It is one thing to ship by truck to market and another to ship by rail. Areas that are close to market have the advantage of being able to place a larger percentage of their crop before the buying public than those areas that are distant. One of the reasons why land values are higher close to market is because of this advantage. Farmers who have this advantage should think twice before they throw it away. If you have some seconds that have already been produced, already sorted out, already placed in packages; all you have to do is set them on the tailboard of the truck. The truck is going to market anyhow, and they will help to pay the cost of sending the truck to

market. Isn't it rather foolish to throw them away?

In areas close to market, roadside marketing offers an opportunity. As long as the costs of distribution remain relatively high, the chances of a farmer's making a profit by getting the retail price for his goods are good. Many times at roadside markets the consumers pay the transportation costs and furnish the package, thus making a very real saving so far as the producer is concerned. One of the great difficulties in our roadside marketing has been the small volume of business which makes the labor costs per unit of sales high. Many times we find children, the sons and daughters of the owner, operating the stand. In most cases there has been little done to attract the buyer in the way of display, attractive stands, and the usual factors that are referred to as eye appeal. We find gasoline stations, ice-cream stands, and beer dispensaries located on the good corners and often so constructed that they are attractive to the passer-by. If this is good business for these other sellers, why should not the farmer take advantage of these same factors through a cooperative program? If enough producers get together to furnish a good volume of business, there is no reason why trained salespeople, colorful displays, and other factors used in successful retail merchandising, could not be brought into use. It would seem that in many localities such a cooperative enterprise has promise of real results.

Another proposal which is receiving considerable attention is co-operation between retail stores and groups of producers in times of glut. In the past it has often been a fact that retail prices have not fallen as the season progressed as have wholesale or farm prices. Usually a vegetable product, for example, will sell at the beginning of the season at a high price. As the volume of production increases, the farmer's price drops rapidly. Many times the retail price continues at a fairly high level. This is economically unsound; it benefits neither producer nor consumer, and anything which will change this situation holds promise of benefit to all concerned. The plan in general is: If producers forecast a glut of some product 10 days to 2 weeks in advance, the retail stores will develop a program to move this glut into the hands of the consumer. The radio will be used to let people know that this product will be available in a large supply and at low cost. Newspapers will be used to tell the same story, and it is expected that the clerks in the retail stores will cooperate in calling the consumer's attention to the low prices. The stores will reduce their spread and move the product into the hands of consumers at as low prices as possible. This is not a "loss-leader" campaign since it is expected that the increased volume of sales will carry the costs involved. The results will be that the consumer will get products at a low price during the period when in the past they have been thrown away because of the glutted conditions. The producers get something for their products as compared with nothing. This type of co-operation gives promise of valuable results.

Improvement in our terminal-market facilities is a crying need. Most of our great Eastern terminals were built for conditions of a hundred years ago. They were built before the autotruck was known. Today

a great percentage of our produce is moved by truck, and the facilities in these terminal markets cannot handle the situation. One can go to almost any terminal market during the sales period and find such congestion that trucks are stalled for long periods. The costs of the truck and the labor involved is greatly increased because of these inadequate facilities.

Larger consumer packages hold promise for some reduction in marketing costs. In some markets milk is now being sold in 2-quart containers rather than the usual quart or less. With improved refrigeration facilities in homes, the large-container program would seem to hold promise of reducing costs of marketing.

In general it seems difficult to improve upon the present system. Chain stores, for example, handle food in big volume at exceedingly low cost. Consumer cooperatives have found it difficult to compete with the efficiency of chain stores. As long as consumers want service in the way of small quantities, frequently obtainable, always fresh, within a few blocks of their homes, the costs of getting produce from the producer to the consumer will be high. On the other hand it is true that comparatively little thought and attention have been given to marketing problems. Many improvements undoubtedly can be made when the ability of our American people is brought to focus on marketing. We need to start research on marketing problems as quickly as possible and begin to determine the places in the marketing system where improvements can be made.

1. The first thing I noticed when I stepped out of the plane was the cold. It was a sharp contrast to the warm, humid air of the tropics. I shivered slightly, pulling my coat closer. The ground below was a vast, flat expanse of white sand, stretching out to the horizon. In the distance, a line of low, rolling hills could be seen under a pale, overcast sky. The silence was absolute, broken only by the distant hum of an engine or the soft rustle of leaves in the wind.

2. As I walked along the beach, the sand felt like a soft carpet under my feet. The waves were gentle, lapping at the shore with a rhythmic, soothing sound. I closed my eyes for a moment, letting the sun's rays warm my face. The air smelled of salt and sea, a familiar yet comforting scent. I took a deep breath, feeling a sense of peace wash over me. The world seemed so far away, leaving only this moment of tranquility.

3. The beach was empty, save for a few seagulls in the distance. I walked further down the shore, the sand shifting beneath my feet. The horizon line was perfectly straight, dividing the sea from the sky. I felt a sense of solitude, a rare moment of being alone in a beautiful world. The sun was low in the sky, casting a golden glow over everything. I stopped for a moment, looking out at the vast ocean. It seemed so endless, so full of mystery. I wondered what secrets it held, what stories it could tell. The wind picked up slightly, carrying with it the scent of distant lands. I smiled, feeling a sense of adventure and discovery. This was my chance to escape, to leave behind the worries of the world and embrace the beauty of the unknown.